

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ.*

DATE: July 9, 2010

RE: Using an Adopted Budget as the Deficit Elimination Plan

Councilman Cockrel asked that I find out if the adopted budgets approved your Honorable Body in the past sufficed as a deficit elimination plan when there was a known deficit in a CAFR document.

Based on a conversation with a representative from the Local Audit and Finance Division of the Michigan Department of Treasury, who reviews and approves deficit elimination plans, indicated that yes, in the past, the adopted budget was accepted in lieu of a deficit elimination plan to address an audited deficit per a CAFR.

However, especially in recent years, due to the City of Detroit's dire financial condition, growing deficits and submission of late audits, the State Treasury's Office now requires a deficit elimination plan, along with a copy of the most recent adopted budget, as evidential documentation explaining how the City is going to address the \$331.9 million deficit in the 2009 CAFR.

Specifically, the State Treasurer's Office will want to see, at minimum:

1. A general ledger entry showing the receipt of the \$250 million in fiscal stabilization bonds, and how the bonds help to address the 2009 deficit.
2. An updated deficit elimination plan that addresses any known shortfall in fiscal year 2009-10.
3. A copy of resolutions passed by Council to adopt the 2010-11 budget, and a copy of the 2010-11 budget.

Obviously, a copy of the budget amendment to the 2010-11 budget your Honorable Body recently passed should be shared with the State Treasury's Office as well.

The representative from the State Treasury's Office also indicated that the City should show details on any revenue enhancements and expenditure cuts as much as possible.

For instance, the 2010-11 budget contains an \$85.5 million revenue entitled "Restructuring and Consolidations". The State would want some details on how this revenue would materialize. And of course, the State Treasury's Office may ask for more documentation as deemed necessary.

I indicated to the representative that the City has until July 12th to submit this documentation. **However, the City could ask for a 30-day extension.**

Council needs to hear from the Administration by Monday, the 12th, whether or not it is going to ask for an extension. Meanwhile, Council's last day before the summer recess is July 30th. Since the State Treasury's Office would want a deficit elimination plan approved by Council, the Administration still needs to get a plan to your Honorable Body as soon as possible, if an extension is granted.

For Council's edification, a two-page document from the State's website entitled "Deficit Elimination Plan" is provided. General plan requirements and acceptable plan documentation are described.

Attachment

cc: Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Thomas Lijana, Group Executive-Finance
Pamela Scales, Budget Director
Kamau Marable, Mayor's Office

ICJ:\ICORLEY\Adopted Budget as a Deficit Elimination Plan July 2010.doc

www.michigan.gov
(To Print: use your browser's print function)

Release Date: May 15, 2007
Last Update: April 12, 2010

Deficit Elimination Plan

In accordance with Public Act 140 of 1971, a local unit of government ending its fiscal year in a deficit condition shall formulate and file a deficit elimination plan with the Department of Treasury within 90 days after the beginning of the next fiscal year to correct the condition.

A deficit condition is defined as a fund where the total expenditure for that fund, including an accrued deficit, exceeds total revenues in that fund for the fiscal year.

General Plan Requirements:

- The deficit elimination plan must be approved by the legislative body of the local unit of government and a copy of the resolution must accompany the plan when filed with the Department of Treasury.
- A plan generally should be for one year, but in no case longer than five years.
- An audit firm hired by the local unit of government may provide advice; however, it cannot issue a deficit elimination plan.
- Once approved, the local unit will receive a signed certification letter.

Acceptable Plan Documentation:

- Interim financial statements documenting the elimination of the deficit within the current period.
- Certified copies of board/council resolutions (describing funds and amounts) approving additional appropriations sufficient to eliminate the deficit and a copy of the journal entry that shows that the transfer has been made.
- A current year or projected budget approved by the legislative body as evidenced by a certified resolution itemizing yearly revenues by source, expenditures/expenses by activity, and changes in the unreserved fund balance/unrestricted net assets through the year of the deficit's eventual elimination. The revenue and expenditure detail should correspond with the audit report. There is a five-year limit for an approved plan; the plan must be amended if the deficit increases or the plan is not otherwise followed.
- For tax increment finance or downtown development authorities, the ordinance or plan approving their existence is acceptable if it shows the flow of revenues and the priority of expenditures that would support the deficit elimination plan.
- For drain or other special assessment-type funds that have deficits, which are not "covered" on the balance sheet by a long-term receivable and deferred revenue, a letter from the Drain Commissioner summarizing assessment levies which could not be recognized for the audited fiscal year due to generally accepted accounting principles, will suffice as a deficit elimination plan.

It is extremely important to show the details for all revenue enhancements and likewise for all expenditure cuts. To be considered for approval, a plan must be substantive, quantifiable and realistic.

Contact information for questions or concerns:

Local Audit and Finance Division
Michigan Department of Treasury
P.O. Box 30728
Lansing, Michigan 48909-8228
(517) 373-0660
Treas_MunicipalFinance@michigan.gov

Sample Legislative Body Resolution and Multiple Year Deficit Elimination Plan:

(Sample Legislative Body Resolution and Deficit Elimination Plan)

WHEREAS (Sample Unit)'s **Park Fund** has a \$175,000 deficit fund balance on December 31, 2002; and

WHEREAS, Act 275 of the Public Acts of 1980 requires that a Deficit Elimination Plan be formulated by the local unit of government and filed with the Michigan Department of Treasury;

NOW THEREFORE, IT IS RESOLVED that the (Sample Unit)'s legislative body adopts the following as the (Sample Unit) **Park Fund** Deficit Elimination Plan:

	2003	2004	2005	2006
Fund Balance (Deficit) January 1	\$(175,000)	\$(169,000)	\$(93,000)	\$(17,000)
Revenue				
Property Taxes	60,000	75,000	76,500	78,000
State Grants	95,000			
Charges for Services	95,000	96,000	96,000	99,500
Other	1,000	1,000	1,500	1,400
General Fund	50,000	50,000	50,000	
Total Revenue	206,000	222,000	225,000	178,000
Expenditures				
Salaries and Wages	115,000	120,500	122,000	124,000
Supplies	15,000	15,500	16,000	16,000
Equipment Repair	4,000	4,000	4,500	4,500
Contractual Services	5,000	5,000	5,500	5,500
Other	1,000	1,000	1,000	1,200
Capital Outlay	60,000			
Total Expenditures	200,000	146,000	149,000	159,700
Fund Balance (Deficit) December 31	\$(169,000)	\$(93,000)	\$(17,000)	\$2,200

BE IT FURTHER RESOLVED that the (Sample Unit)'s (Official's Title) submits the Deficit Elimination Plan to the Michigan Department of Treasury for certification.

ADD CLERK'S CERTIFICATION